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News Release

For Immediate Release January 15, 2007

ESI ENTERTAINMENT ANNOUNCES FISCAL 2007 THIRD QUARTER FINANCIAL RESULTS

Burnaby, BC, January 15, 2007 -- ESI Entertainment Systems Inc. ("ESI") (TSX: ESY) reported today its financial results for the three- and nine-month periods ended November 30, 2006. (All dollar amounts reported in Canadian funds)

Highlights for Q3:

On a consolidated basis:

- Revenue for the three months to November 30, 2006, increased from \$4.82 million to \$6.26 million, or 30%, over the comparative period in the prior year;
- Gross Profit for the three months to November 30, 2006, increased from \$2.19 million to \$3.97 million, or 81%, over the comparative period in the prior year;
- Net loss of \$5,256,916 for the three months to November 30, 2006, represented a decrease of \$5,343,603 from net income of \$86,687 in the comparative period in the prior year;
- At November 30, 2006 the Company recorded a non-cash impairment of deferred costs and assets for Citadel and Playline in the aggregate amount of \$6,211,465;
- Cash and cash equivalents of \$11.0 million compared to \$1.5 million on November 30, 2005;
- UK FSA Authorizes Citadel Commerce as an e-Money Issuer

"Although we generated improved results in the first nine months of the year, as a result of the passing of UIGEA on October 13, 2006, we have recorded a non-cash impairment charge for the deferred costs and certain assets of Citadel and Playline products" said Tony Greening, Chairman and CEO of ESI. "We are currently seeking alternatives and expanded market opportunities for the services provided by Citadel as a way to partially offset the impact of closure of the US market for our merchants."

Financial Review

Total revenue increased by 30% to \$6.26 million for the three months ended November 30, 2006 from \$4.82 million for the three months ended November 30, 2005. This increase was mainly due to the growth in Citadel revenues from its top ten merchants.

Gross profit was \$3.97 million and \$11.04 million for the three and nine months ended November 30, 2006, respectively, compared with \$2.19 million and \$6.07 million for the same periods in 2005. Gross margin as a percentage of revenues was 63% compared to 45% for the same quarter in prior year, an increase of 18%. Margins increased because direct costs did not grow at the same rate as revenues but remained relatively fixed as transaction revenues grew.

Product development expenses were \$282,892 and \$846,833 during the three and nine months ended November 30, 2006, respectively, a decrease of 7% and an increase 134%, respectively, when compared with \$303,896 and \$361,982 for the three and nine months ended November 30, 2005. The differences result mainly from timing of expenditures related to development upgrades to the Citadel Checks platform.

Sales, marketing and customer service expenses were \$748,877 and \$2,418,444 during the three and nine months ended November 30, 2006, respectively; an increase of 22% and 29% for three months and nine months ended November 30, 2005 when compared to \$613,570 and \$1,880,124 for the three and nine months ended November 30, 2005. The increase primarily related to the expansion of Citadel's sales and marketing team, increased travel, additional marketing activities relating to trade shows and increased promotional activities to attract new customers during the nine month period.

General and administrative expenses were \$2,104,147 and \$5,253,212 during the three and nine months ended November 30, 2006, respectively, representing an increase of 125% and 97% compared to \$933,935 and \$2,660,675 for the three months and nine months ended November 30, 2005. This increase resulted from an increase in the Company's administrative infrastructure required to operate a growing organization and the costs associated with being a public company.

In light of the enactment of the UIGEA, and the likely negative impact of those changes on the Company's business, the Company laid off 22 employees from various departments during the quarter ended November 30, 2006 which represented 15% of the employees of the Company and 22% of the employees of Citadel. The Company will save approximately \$1million annually in staffing expenses from these layoffs. Management will be keeping the General and Administrative expenses under continuing review, in order to ensure an appropriate level of such expenditures is maintained as the business climate changes.

Impairment of intangibles and capital asset expenses were \$6,006,216 for three and nine months ended November 30, 2006 when compared to NIL for same periods in 2005. As a result of the enactment of the *Unlawful Internet Gambling Enforcement Act of 2006* and the expected significant negative impact of this legislation on the business, an impairment of intangible and capital assets has been recorded as at November 30, 2006. The impairment was calculated based on comparing the carrying value of the assets to their recoverable value as at November 30, 2006. The recoverable amount was determined based on a value-in-use calculation, using cash flow projections prepared by management. Estimated future cash flows were discounted using a rate reflecting the uncertainty inherent in the continuing operations and the time value of money. Cash flow projections were based on management's estimates of expected cash flows from ongoing operations.

Net losses for the three and nine month periods ended November 30, 2006 were \$5,256,916 (\$0.28 loss per share – basic; \$0.27 loss per share- fully diluted) and \$4,535,662 (\$0.25 less per share - basic; \$0.23 less per share fully diluted) compared to net earnings of \$86,687 (\$0.01 earnings per share – basic; \$0.01 earnings per share – fully diluted) and \$493,547 (\$0.04 earnings per share- basic; \$0.03 earnings per share fully diluted) for the prior comparative periods.

Cash and cash equivalents totaled \$11.0 million and the working capital position was \$9.7 million at the end of the current quarter.

Management's Discussion and Analysis for the above noted information is located on the SEDAR website at www.sedar.com.

Subsequent Events

The Company is a plaintiff (and defendant by counterclaim) in litigation with one of its former employees. No amount has been recorded in the current financials. Company can not reasonably estimate the gain or loss from this litigation at this time.

Forward-looking Statements

This news release contains forward-looking statements concerning ESI Entertainment Systems Inc., which statements can be identified by the use of forward-looking terminology such as “expect”, “proposed”, “may”, “plan”, “intend”, “will”, “would” or the negative thereof or any other variations thereon or comparable terminology referring to future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and the actual events or results could be materially different than those anticipated in those forward-looking statements as results of numerous factors discussed more fully in the Company's Annual Information Form and elsewhere. These risks include risks related to revenue growth, operating results, industry growth, changes in regulation and legislation, products, technology, financing, competition, personnel and other factors affecting the Company and its business, any of which could cause actual events or results to vary materially from ESI's anticipated future results. Forward-looking statements are based on beliefs, opinions and expectations of ESI's management at the time they are made, and ESI does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances should change. The Toronto Stock Exchange does not accept responsibility for this press release.

About ESI Entertainment Systems Inc.

ESI Entertainment Systems Inc. ("ESI") (TSX: ESY) provides products and services to the international gaming industry through its three principal subsidiaries, Citadel Commerce Corp., ESI Integrity Inc. and PlayLine Inc. ESI's products and services, which primarily consist of payment processing, transaction monitoring and turnkey gaming platforms, are deployed in the on-line and land based gaming markets.

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ESI Entertainment Systems Inc.

Consolidated Balance Sheets

(expressed in Canadian dollars)
(unaudited)

	November 30, 2006	February 28, 2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,988,753	\$ 2,498,268
Accounts receivable	1,556,837	717,324
Prepays	866,510	485,982
	<u>13,412,100</u>	<u>3,701,574</u>
Citadel processing accounts (Note 4)	33,902,491	33,805,751
Deferred share issue costs	-	936,987
Deferred contract costs	477,421	537,822
Deferred start-up costs (Note 6)	-	2,675,695
Property and equipment (Note 6)	1,553,669	1,973,586
Capitalized development costs (Note 6)	-	1,477,731
	<u>\$ 49,345,681</u>	<u>\$ 45,109,146</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,940,720	\$ 2,213,787
Loan payable (Note 5)	-	1,000,000
Capital lease obligations	346,377	258,631
Software license obligation	39,587	114,286
Deferred revenue	380,610	564,239
	<u>3,707,294</u>	<u>4,150,943</u>
Citadel processing liabilities (Note 4)	33,902,491	33,805,751
Deferred revenue	1,428,385	687,895
Software license obligation	-	5,247
Capital lease obligations	328,543	486,058
Future income tax liabilities	-	258,500
	<u>39,366,713</u>	<u>39,394,394</u>
Shareholders' Equity		
Capital stock (Note 7)	13,700,702	5,089,990
Warrants (Note 8)	84,634	5,926
Contributed surplus	168,237	57,779
(Deficit) Retained earnings	(3,974,605)	561,057
	<u>9,978,968</u>	<u>5,714,752</u>
	<u>\$ 49,345,681</u>	<u>\$ 45,109,146</u>

Contingencies and commitments (Notes 3 and 12)

On behalf of the Board

_____ Director

_____ Director

ESI Entertainment Systems Inc.

Consolidated Statements of Earnings and Retained Earnings

(expressed in Canadian dollars, except shares and per share amounts)

(unaudited)	Three Months Ended November 30,		Nine Months Ended November 30,	
	2006	2005	2006	2005
Revenues (Note 6)	\$ 6,256,549	\$ 4,815,936	\$ 17,537,387	\$ 13,032,282
Direct costs (Notes 3 and 6)	<u>2,290,053</u>	<u>2,626,293</u>	<u>6,500,573</u>	<u>6,966,746</u>
Gross profit	<u>3,966,496</u>	<u>2,189,643</u>	<u>11,036,814</u>	<u>6,065,536</u>
Operating expenses				
Product development	282,892	303,896	846,833	361,982
Sales, marketing and customer service	748,877	613,570	2,418,444	1,880,124
General and administrative (Note 11)	2,104,147	933,935	5,253,212	2,660,675
Amortization of property and equipment	<u>235,620</u>	<u>227,577</u>	<u>677,652</u>	<u>443,729</u>
	<u>3,371,536</u>	<u>2,078,978</u>	<u>9,196,141</u>	<u>5,346,510</u>
Earnings before under noted items	594,960	110,665	1,840,673	719,026
Other expenses (income)				
Impairment of intangibles and other assets (Note 2)	6,211,465	-	6,211,465	-
Foreign exchange loss (gain)	(233,012)	6,163	(69,804)	47,362
Interest income	(105,482)	(35,363)	(391,485)	(106,090)
Interest expense	<u>19,944</u>	<u>9,323</u>	<u>106,354</u>	<u>27,969</u>
(Loss) Earnings before income taxes and non-controlling interest	<u>(5,297,955)</u>	<u>130,542</u>	<u>(4,015,857)</u>	<u>749,785</u>
(Recovery of) Provision for income taxes				
Current	13,961	-	45,805	-
Future	<u>(55,000)</u>	<u>45,442</u>	<u>474,000</u>	<u>261,000</u>
	<u>(41,039)</u>	<u>45,442</u>	<u>519,805</u>	<u>261,000</u>
(Loss) Earnings before non-controlling interest	(5,256,916)	85,100	(4,535,662)	488,785
Non-controlling interest	<u>-</u>	<u>(1,587)</u>	<u>-</u>	<u>(4,762)</u>
Net (loss) earnings	<u>\$ (5,256,916)</u>	<u>\$ 86,687</u>	<u>\$ (4,535,662)</u>	<u>\$ 493,547</u>
(Loss) Earnings per share (Note 10)				
Basic	\$ (0.28)	\$ 0.01	\$ (0.25)	\$ 0.04
Diluted	(0.27)	0.01	(0.23)	0.03
Retained earnings (deficit), beginning of period	\$ 1,282,311	\$ (295,590)	\$ 561,057	\$ (675,779)
Excess of consideration paid over ascribed value for shares repurchased	-	-	-	(26,671)
Net (loss) earnings	<u>(5,256,916)</u>	<u>86,687</u>	<u>(4,535,662)</u>	<u>493,547</u>
Deficit, end of period	<u>\$ (3,974,605)</u>	<u>\$ (208,903)</u>	<u>\$ (3,974,605)</u>	<u>\$ (208,903)</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars, except shares and per share amounts)

(unaudited)	Three Months Ended November 30,		Nine Months Ended November 30,	
	2006	2005	2006	2005
Cash flows provided by (used in)				
Operating activities				
Net earnings	\$ (5,256,916)	\$ 86,692	\$ (4,535,662)	\$ 493,547
Items not affecting cash:				
Stock-based compensation (Note 9)	27,764	15,265	110,976	15,265
Amortization of property and equipment	235,620	227,569	677,652	443,729
Impairment of intangibles and other assets (Note 2)	6,211,465	-	6,211,465	-
Non-controlling interest in results of subsidiary	-	(1,587)	-	(4,762)
Future income taxes	(55,000)	45,442	474,000	261,000
Net changes in non-cash operating items:				
Accounts receivable	(643,986)	(80,539)	(839,513)	419,100
Inventory	32,002	-	(205,250)	-
Prepays	(324,510)	867,050	(380,528)	149,596
Accounts payable and accrued liabilities	558,374	141,006	726,934	21,662
Deferred revenue	333,820	(78,344)	556,861	155,228
Deferred contract costs	65,219	(4,866)	60,401	(130,154)
	<u>1,183,852</u>	<u>1,217,688</u>	<u>2,857,336</u>	<u>1,824,211</u>
Investing activities				
Acquisition of property and equipment	(112,888)	(61,601)	(314,418)	(590,874)
Capitalized development cost	(258,727)	(217,039)	(398,685)	(600,490)
Acquisition of Riptide Technologies Inc., net of acquisition costs incurred (Note 1)		(683,827)		(683,827)
Deferred start up cost	(259,991)	(387,064)	(1,253,151)	(1,127,479)
	<u>(631,606)</u>	<u>(1,349,531)</u>	<u>(1,966,254)</u>	<u>(3,002,670)</u>
Financing activities				
Loan payable	-	-	(1,000,000)	-
Capital lease payments	(82,234)	(113,451)	(214,039)	(113,451)
Software license obligation	(29,261)	147,117	(79,946)	(78,552)
Repurchase of common shares	-	-	-	(42,600)
Issuance of common shares, net of issue costs	-	-	8,893,388	9,375
	<u>(111,495)</u>	<u>33,666</u>	<u>7,599,403</u>	<u>(225,228)</u>
Increase in cash and cash equivalents	440,751	(98,177)	8,490,485	(1,403,687)
Cash and cash equivalents, beginning of period	<u>10,548,002</u>	<u>1,589,666</u>	<u>2,498,268</u>	<u>2,895,176</u>
Cash and cash equivalents, end of period	<u>\$ 10,988,753</u>	<u>\$ 1,491,489</u>	<u>\$ 10,988,753</u>	<u>\$ 1,491,489</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows (Continued)

(expressed in Canadian dollars, except shares and per share amounts)

(unaudited)	Three Months Ended November 30,		Nine Months Ended November 30,	
	2006	2005	2006	2005
Non-cash investing and financing transactions not included in cash flows				
Conversion of preferred shares into common shares	\$ -	\$ -	\$ 2,706,941	\$ -
Share issue costs incurred in prior fiscal year	-	-	936,987	-
Future income tax on share issue costs	-	-	732,500	-
Fair value of options exercised	-	-	519	-
Agents' warrants included in share issue costs	-	-	78,708	-
Cash and cash equivalents comprises				
Cash	\$ 8,478,645	\$ 1,491,489	\$ 8,478,645	\$ 1,491,489
Cash equivalents	<u>2,510,108</u>	<u>-</u>	<u>2,510,108</u>	<u>-</u>
	<u>\$ 10,988,753</u>	<u>\$ 1,491,489</u>	<u>\$ 10,988,753</u>	<u>\$ 1,491,489</u>
Supplemental information				
Interest received	\$ 144,457	\$ 39,211	\$ 367,011	\$ 109,937
Interest paid	19,944	27,971	106,354	46,617
Income taxes paid	50,763	-	50,763	-